

OUR ECONOMIC SYSTEM

By

Dr. W. W. Swanson

*Head of the Department of Economics
University of Saskatchewan
Saskatoon*



THIS PAMPHLET is No. 1 of a series, the purpose of which is to give wider distribution to the lectures delivered in the Co-operative School, held in June, 1929, at the University of Saskatchewan under the joint auspices of the Saskatchewan farm organizations directly identified with the co-operative movement, namely, the Saskatchewan Live Stock Pool, the Saskatchewan Poultry Pool, The Saskatchewan Registered Seed Growers, The United Farmers of Canada (Saskatchewan Section), The Western Producer, and The Saskatchewan Wheat Pool.

OUR ECONOMIC SYSTEM

(By Dr. W. W. Swannson)

OUR economic system is the outcome of an evolutionary process which has not reached its term or goal, but which, on the contrary, is continuing at an accelerated pace in our own time. In no sense is it static, fixed, or final in its form; indeed, its most outstanding characteristic is its capacity to adjust itself to the altered conditions of a changing world. Two powerful dynamic forces are reshaping all aspects of the modern world, namely, science and the machine technology. The effects of these factors on our economic system, as well as on our cultural institutions, are profound.

Economic law continues to operate under these changed and changing conditions. It operates in Bolshevist Russia, as well as under the highest development of Capitalism in Great Britain and the United States; it defines the limits and the possibilities of co-operation. As with any other natural force, we may work in harmony with it, or attempt to thwart it. In the one event, our program will succeed; in the other, it will fail. The disposal of an agricultural surplus must take into account the nature of effective demand, or, the nature and extent of the market. There are conditions under which we can widen our command of the instruments of production, of capital equipment; there are economic policies that will lead only to want and disaster. It is essential that these facts be borne in mind, for no ethical system, no scheme for the social and economic regeneration of mankind, can possibly be carried into successful practice if the hard realities of economic law are ignored. This is not tantamount to saying that what has not been done, cannot be done. It means, on the contrary, that we can do a great deal more to enlarge and sustain living standards if we go about the matter in the right way.

Two aspects of our present economic system require emphasis. First, how it has developed; and second, the modifying forces and factors that are impinging on that system today, radically altering it and creating a new economic and cultural civilization; for it is clear that any far-reaching change in man's method of making a living cuts to the very roots of life. It changes not only the nature of his social and economic institutions, but the very quality and texture of his opinions and beliefs. It colors his hopes, his fears, his aspirations and his dreams. Constantly the struggle goes forward to adjust his outer relations—his institutions and environment—to his inner thinking, his new knowledge. The institutions that serve his need—upon which his well-being depends—always tend to lag behind the requirements of a new order.

Broadly speaking, our economic system takes its rise from the industrial evolution of the latter eighteenth and the early nineteenth centuries. This epoch-making change, justly termed a revolution, followed the invention of power machinery, the development of the factory scheme of production, and the consequent shift of emphasis from agriculture to manufacturing. And this change in emphasis has continued to become sharper with the passing of time. It is fairly correct to say that in the highly industrialized nations, as well as in the younger, ambitious ones, agriculture has sunk to a position of secondary importance in the regard of those in places of power. While agriculture is still immensely important to the economic life of the United Kingdom and the United States, it is the machine industries that have mainly received fostering care.

What are the dominant facts in our economic life today? Manifestly they consist of the ideal of mass production in the factory, and wherever the machine technology has been applied it has led to vast aggregations of capital under the control of the relatively few; the drawing upon world-wide sources of supply for raw materials; the utilization of world-wide markets for the sale of the products of the factory and the output of the farm; a growing tendency to specialize in the production of a given commodity, whether automobiles, cotton, tobacco or wheat; and the introduction of highly technical processes in manufacturing, storage and exchange.

This transition from home industry and small-scale manufacturing, and the moving of millions of men and women from rural pursuits to industrialized urban communities, profoundly affected political and social institutions and the bias of thinking of statesmen. Out of the French Revolution came political and social theories of democracy and freedom that fitted into the new order of industry and finance for a time. Free trade, *laissez faire*, free competition were the shibboleths of the industrialists and as political as well as economic power had passed to them, they based political action on the theory that best suited their interests. "Freedom," for the masses, however, frequently meant freedom to starve. Unorganized, uneducated, exploited by the ruling class, the workers of Great Britain, in the early nineteenth century, whether in town or country, lived in wretchedness and poverty. It was these conditions that afforded Karl Marx the materials for that sombre picture of England under the Capitalistic System, drawn in the opening chapter of "Capital." Revolt was inevitable; the workers organized into trade unions and a more enlightened administration introduced legislation for the protection of men and women in industry. Both on the continent and in Great Britain, Labor and Socialistic parties developed.

Side by side with these economic changes, occurred developments of deep significance in the sphere of nationalism. These reacted, in turn, on economic policy. As already remarked, the French Revolution gave an impulse to democracy and political liberty, which was felt throughout the world. While autocracies remained enthroned in Europe, both there and in the New World there was a growing conviction that sovereignty was the prerogative of the people. This led, however, not to wider concepts of freedom and democracy, but to the development of nationalism, to which the nineteenth century revolutions lent their support. In one sense, Woodrow Wilson with his theory of "self-determination" sharpened this feeling of nationalism, which in its perverted sense threatens the peace and stability of the world today.

The strengthening of nationalism during the past century, in Germany, in Italy, the Italian States and elsewhere, rested not only upon racial and emotional factors, but economic interests as well. In the first place, there was a tendency to identify the economic well-being of certain groups within the nation, with the national good itself. In the second place, there was a recrudescence of Mercantilism, based on the idea that a nation should sell as much abroad as possible and reduce imports to a minimum in order to encourage domestic industry. In the third place, the laissez faire theories of the economists had become discredited, Labor itself being the first to reject them. However desirable freedom of trade might be, or freedom of contract, it was discovered that planless freedom would not work. While these were the main reasons for the construction of national economic policies, there were also lesser supplementary ones—the argument for national defense; the factor of emotional patriotism; and the desire to secure the fullest possible measure of national self-sufficiency. But whatever the reasons, the results were seen in the establishment of a system of protective tariffs, and the growth of economic imperialism.

Every student of the subject is quite aware that there are non-economic elements in nationalism, and that twentieth century Mercantilism is not to be confused with the crude and primitive conceptions of the sixteenth and seventeenth centuries. Nevertheless, the idea still widely obtains that it is, somehow or other, unpatriotic to buy abroad if the goods in question can possibly be produced at home. Even more widely held is the belief that the prosperity of a nation depends upon the prosperity of its industries. Indeed, it was chiefly this "prosperity" argument that was advanced by the Republican Party in the recent elections of the United States. Much was made of the riches of the American people, of their comparatively high living standards, of the level of employment, of their position as international creditors, and of their huge export trade. The stock market boom had engulfed tens of thousands; and high security prices, carried upwards on a speculative wave, were made tantamount to high prosperity. True, there was a rift in the lute; the farmers were bold and strenuously asserting that the policies that made for urban prosperity and progress had done little or nothing for them. It had become abundantly clear that wealth accumulation could be one-sided; that one-third of the nation might lag behind the general prosperity march; and that prosperity as among the urban industries themselves, might make for unemployment as machine production continued to pour forth increasing supplies of goods on a smaller labor unit basis. High dividends, the making of millions and an enormous increase in capital investments at home and abroad, were found to be indices of prosperity that might leave the masses struggling with the problem of making income balance essential expenditure. In other words, it is not only the creation of wealth, but the equitable distribution of wealth, that constitutes true prosperity. A civilization may be more justly judged by the poverty and want it tolerates than by the wealth it creates.

It would be a waste of time to dwell on the importance of external trade, as far as western farmers are concerned. It is all too clearly recognized in the west that our economic life would collapse were it not for the support rendered by foreign markets. From this standpoint, it is recognized that the buying power of the world is essential to sustain our own. A little analysis of our present economic system, however, will show that this foreign trade does not rest simply upon the exchange of goods between one country and another, but that, by the intervention of bills of exchange of various types, the nations of the world are drawn together for their mutual interest and support.

Moreover, many items other than goods appear in the international balance sheet—invisible items, such as interest on investments; payments for services rendered by transportation and insurance companies, and the like; money spent by tourists abroad; remittances of emigrants, and so forth. One of the most fundamental factors operating in our economic system today is this matter of foreign investments. It is evident that such loans may be productive, or non-productive; that they may be used for the energizing of the economic life of a nation, or for the fabricating of instruments of destruction, the equipping of armies or the building of battleships. France furnished the capital to build Russia's great Siberian railway system, as also her fleets and armies. The point we wish to make, however, is that our present economic system is capable of producing surplus capital; that it does actually produce that surplus; but that, unfortunately, part of the surplus has been utilized in the field of foreign investment to gain and keep political control. The United States, along with all other modern nations, maintains that it wages only defensive war. What war of defense was it waging in Nicaragua?

Foreign investments are an integral part of modern foreign trade, and, wisely made, should operate to the advantage of all. Unfortunately, however, our economic system has been adversely affected by political ambitions. For one thing, some of the Great Powers appear to believe that trade not only follows the flag, but must be protected by that flag. Thus it has come about that the government of the United States—surely one of the most liberal in the world—has accepted, in part at least, the political dogma that the government must protect the foreign investments of American citizens. Hence, grave political as well as economic consequences follow the role of creditor among the nations.

It is no part of the present investigation to discuss whether a tariff is necessary for the creation of national prosperity, or whether agriculture can be benefited by a tariff, high or low. It is intended, rather, to analyze the situation as it exists, and as it is being modified. In fairness, it should be said that the protagonists of the tariff policies today generally accepted do not support them merely as tariffs, but as aids to equalize costs of production at home and abroad; or, to put it another way, to equalize economic opportunities in the domestic and external fields. They look to the tariff to provide revenue while achieving desirable economic ends as well. Nor must present tariff policy be narrowly conceived. Germany has, perhaps, given closest study to the question; and, in addition to protective duties, has aided industry by export bounties and transit advantages by rail and water. Some countries, Poland among them, have placed embargoes on imports and exports for stated periods; while bounties, drawbacks and anti-dumping legislation have in the past characterized the tariff policy of Canada.

It is idle to dogmatize on the particular effects of tariff legislation, for those effects will differ according to whether the protection is granted to large-scale industries, whose products are absorbed nationally, or to similar industries, whose manufactures are in considerable degree exported and enter into competition with foreign products. The extent of the market, the buying power of that market, the nature of internal competition, and, above all, the nature of the demand, are factors that will modify the effects of a protective tariff as far as the burden of the tax is concerned. The opinion may be advanced, however, that a protective tariff is of little avail to those farmers who must find a market abroad for a considerable percentage of their surplus production.

One should be taken to state that the tariff problem is not simple; and that there is no direct and easy method that may be applied to its study. Tariffs have become complicated questions by the introduction of maximum and minimum schedules; by the erection of autonomous tariffs and conventional reductions; and by the application of the principle of most-favored-nation treatment, and of reciprocity. Colonial empires have been established by all the great powers, and in this respect no distinction can be drawn with regard to the record of the United States. The "open door" programme tends to eliminate international friction; but, in general, past policy has been based upon the assimilation of the general tariff scheme of dependencies with that of the mother country, or upon the extension of preferential treatment to the products of the mother country and its possessions. In the post-war period, tariffs have been increased for two reasons, namely, the urgent need for revenue, and an intensified nationalism. Their ill effects were felt so widely that some relief from the pressure of these barriers to world trade was sought by the calling of a World Economic Conference at Geneva in May, 1927.

Under our present economic system, the tariff has, in some respects, been made a bulwark of imperialism. But there are other and more important forms of imperial control. It is common knowledge that imperialism has been based upon external territorial possessions; upon protectorates, leaseholds and concessions; on spheres of influence, and intervention extending over long periods of time. Latterly, dominion status has greatly modified imperialism within the British empire; and this has been supplemented by the mandatory system, which comes under review at stated intervals by the League of Nations. The colonial possessions of the powers were extensive by 1850; but since that time imperialism farther developed by encroachments in Asia, the partition of Africa, and the extension of the influence of the United States into the territories touching on the Caribbean Sea.

What economic bases are discoverable for this extension of imperialism? They are to be found chiefly in the problem of securing raw materials to support the machine economy. Colonies and protectorates have provided foodstuffs, and other cultivable products, such as rubber, hemp and vegetable oils. In addition, the modern economic system demands huge quantities of raw materials, the supply of which is relatively fixed, e.g., metals and petroleum. But above all, external possessions were eagerly sought as markets for surplus goods and to furnish the means for an extension of economic nationalism.

The effects of the introduction of economic imperialism into our economic system have been profound. On the social side have arisen labor problems and the disintegration of economic and cultural institutions, arising not merely from the contact, but the conflict, between different types of civilization. Politically, there ensued an increase in national power, which, in turn, made for increased responsibility for defense. Inevitably there followed also, intensified international rivalry, which, in part at least, accounts for the cataclysm of 1914. Today, the powers are not quite so certain of the value of the exclusive possession of colonies and protectorates as sources of raw materials and as markets for surplus goods. It is not true, of course, as the Communists contend, that economic imperialism is just one phase of Capitalism, and its inevitable result. The "open door" programme has already been successfully applied as a tentative solution of the problem of securing raw materials and markets, with a minimum of international friction.

Our economic system has been greatly affected also by the legacies of the World War. These have been, briefly, an excess of productive capacity in certain industries; the industrialization of areas that had been largely rural in character before 1914; the burden of war debts, and reparations. The stabilization of the currencies of the world in itself afforded statesmen a prodigious problem. Without attempting at this time to enter into an examination of the results of a dislocated industrial system, or of the resulting disturbance of the necessary balance between industry and agriculture, it may be said that two facts have become plain if our present economic system is not to collapse: First, that national territorial frontiers can not be determined wisely or well without taking into account also the essential conditions for industrial stability; and second, that the tariff is not a domestic question alone, but international in nature and scope. And out of these two facts has developed an economic programme on the Continent and Great Britain that is of great significance to the peace and prosperity of the world.

The Russian Soviet ideal of the destruction of all national frontiers is not likely to be achieved—at least not in our time—but there is a growing and powerful movement for the destruction of economic barriers. British, French and German industrialists have united to establish cartels, to eliminate wasteful competition, and to break down economic nationalism. These industrial unions, although more or less loose in their organization, attempt to fix prices that are fair to the consumer; to provide steady work to labor on equitable terms; and to share raw materials and markets for the common good. While one must admit that there are dangers and difficulties in the way of such agreements, they are chiefly important as showing that underlying economic conditions may force statesmen to take into account the common interests of labor and industry, which far outweigh dynamic claims, or nationalistic pretensions. It is not without significance that the committee of experts grappling with the reparations problem, have recommended the establishment of an international credit bank. Finance and industry draw the world together. The powers themselves are coming into closer agreement on essentials, as is evidenced by the "open door" policy in China; by their treatment of the economic aspects of the mandate system; and, by their handling of international administrative unions, such as the sugar union, the postal union, and the like.

This phase of our present economic system should not lead one to neglect the equally important economic work of the League of Nations. It has established technical organizations and advisory committees; it has a financial and technical section of the Secretariat; a consultative economic committee; and an international labor organization. The most important step toward world economic reconstruction was taken at the Brussels conference; through the League, reconstruction loans have been negotiated and advanced to stricken nations; and that body has given much attention to problems of currency, bills of exchange, and taxation. Mention has already been made of the World Economic Conference held at Geneva in May, 1927. It is important to observe that American and Russian delegates participated in these deliberations, which included not only questions of trade and industry, but agriculture as well.

And it was imperative that problems of agriculture be included in the agenda. Despite the phenomenal advance of machine industry, the astonishing growth of cities and the shift of population from the country to urban centres in advanced nations, by far the greater proportion of human beings still draw their living from the soil. Agri-

culture remains, from its very nature, the basic industry of the world. It affords the means of life; it supplies essential raw materials to the factories; it gives tone and health to the entire nation. Nevertheless, agriculture in the New World as well as in the Old has passed through difficult times since the close of hostilities. It has borne the brunt of the burden of economic readjustment; it is passing through a phase of technological readjustment also that demands careful study to assure it a reasonable measure of stability. Neither in the United States nor in Canada has this fundamental enterprise been placed in the right relation to the other economic interests.

Farmers have, in general, always given their main concern to problems of technique—of production. Without neglecting this aspect of their work, they are now at least equally concerned with other questions—not only with the value and volume of the output of the farm, but the net return to the producer as well. And not only the net return, and the policies of production and finance that will enlarge it, but the widening of democratic methods of control. As a result of peaceful evolution from the present economic system, they look forward to the establishment of the "co-operative commonwealth," in which rewards will be more justly proportioned to services rendered. Recognizing the vital importance of profits, of prices of farm products, they are eager to shift the emphasis to human values. This does not, in our opinion, involve the destruction of the Capitalistic System or any other instrument of human progress. It does involve the lowering of capital to its proper level and the raising of human values and personality to their right level. Is such a programme feasible, as well as desirable? Yes, when we have produced leadership of a quality capable of carrying it into effect. Despite confusion and doubt, it is safe to say that, darkly moving beneath the troubled waters, are the forces that will rule the future.